Upper Valley Agency
WASTE MANAGEMENT

Agenda Date: 12/12/2005
Agenda Placement: 6B

Upper Valley Waste Management Agency
Board Agenda Letter

TO:	Board of Directors
FROM:	Jill Pahl - Acting Manager Upper Valley Waste Management Agency
REPORT BY:	Jill Pahl, Acting Director , 253-4410
SUBJECT:	Franchise Amendments

RECOMMENDATION

FRANCHISE AMENDMENTS
REQUESTED ACTION: Approval and authorization for the Chair to sign first amendments to the following:

- Agency Agreement #95-06; and
- Agency Agreement #95-09.

EXECUTIVE SUMMARY

After a lengthly negotiation process an agreement has been reached for the rates which subsequently affects the franchises and the rate methodologies. Staff used some negotiated approaches that are not presently included in the rate methodologies to develop the rates being proposed in the next item. Because of these negotiations, the existing rate methodology needs amendment. In addition, changes to aspects of both the franchise and the rate methodology are proposed for future rate reviews.

FISCAL IMPACT

Is there a Fiscal Impact? No

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

There were revisions from the current rate methodology that were used in calculating the rates proposed in the next agenda item. The revisions proposed that effect both Clover Flat Landfill (CFL) and Upper Valley Disposal Service (UVDS) are the following:

- For leases that were in place prior to 1995: allowance for expenses for personal property intercompany leases in addition to the existing real property intercompany leases . These 'equipment' leases were not being allowed, but the company could purchase new equipment at a higher cost that could be included in the rates than the old equipment's expense resulting in a greater cost to the ratepayers. This effects both the Allowable (receives a profit) and the Recoverable (pass through expense) portions of these expenses.
- Consultant Services is recommended to be increased by a percentage of the annual Consumer's Price Index (CPI). These expenses continue to rise such that the static limits presented 10 years ago in the rate methodology are now low in comparison to actual costs. This is true for both the Allowable (receives a profit) and the Recoverable (pass through expense) portions of these expenses.
- The franchisee's fiscal year changed a few years ago, and a January through December rate year is being used for the audit reports and thus the rate reviews.

Additional rate methodology changes for CFL are as follows:

- Clarifications on how the closure and post closure trust fund payments are handled on an actual cash basis and on how the interest from this fund will be considered when released from the trust.
- Clarification that Total Revenues includes revenues from all incoming waste.

The inclusion of the above items resulted in a decrease in CFL's rate from $56 per ton to $54.25 and projected an increase for UVDS of 74%. The projected UVDS increase was unacceptable to both the Agency and the Franchisee. As such a compromise was reached that allowed for a 30% increase effective January 1, 2006 and an additional 15% increase in 2008 for UVDS. This was based on the following:

- Granting an additional 5 years to the UVDS franchise to coincide with the CFL term;
- Committing to reviewing the feasibility of maintaining a landfill in the north county; and
- Allowing CFL to solicit waste from outside the Agency's Service Area at probably lower rates than charged to the public and UVDS.

The last bullet may seem intuitively wrong, but CFL is unique in that at other sites disposal tonnages are growing, but CFL's tonnages have remained stagnant. Needless to say their costs have not remained stagnant. If additional waste/revenues could be located the CFL expenses would be spread over a larger waste base. Little to no additional expenses are anticipated with the additional waste. Instead of the future rate increases predicted by CFL, we may be able to maintain our rates and maintain the availability of a local landfill to serve the needs of the up valley community.

If additional waste were received it would be in transfer vehicles (probably around 4 per weekday), and the physical effort per transfer vehicle of CFL staff would be less than what it is now for even the UVDS collection vehicles. Transfer vehicles have a high payload with little effort. CFL would be solely responsible for obtaining any permit modifications if the disposal of additional waste is achieved.

In addition, the Agency negotiated to retain the CFL rate at $54.25 unless special circumstances occur that would justify a rate increase. Also, if additional revenue sources are not obtained by 2008, then the Agency and CFL would review the impact on the company's financials and review whether maintaining an up valley landfill is feasible. Prior to originally entering the franchise in 1995, the Agency commissioned a study on the feasibility of keeping CFL. At that time, the results indicated that the convenience of having a local landfill site was enough to continue using CFL.

The last point of the negotiations is to proceed with a revision in the UVDS rate methodology that would result in a similar process recently negotiated with the new garbage company in the south County area. This would provide for annual increases utilizing the Consumer Price Index which should greatly reduce the staff time for both the Agency and the Franchisees in preparing and evaluating the rates. We intend to pursue this in the next few months while the issues are still fresh.

SUPPORTING DOCUMENTS

A . CFL Resolution

B . UVDS Resolution

Recommendation: Approve

Reviewed By: Jill Pahl